

Background on Political Situation of Belarus towards 2007: In Search of a New Vision

1. Main stages in the development of a political regime in Belarus

There are two stages in political development of Belarus. The first stage covered the period from 1994 through 2003. During this period the model of personal power was formed based on broad public support. The second stage began in 2003, when Lukashenka's rating had greatly decreased.

1.1. Formation of regime

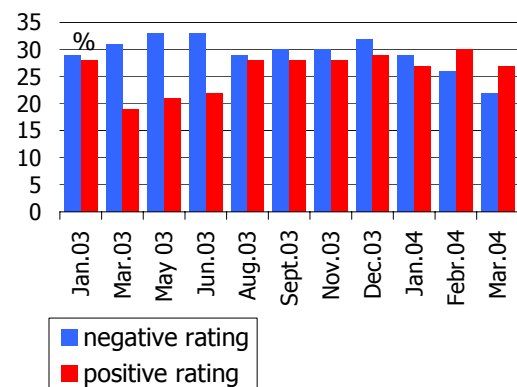
There are **two types** of post-soviet regimes. The **first type** provides for broad involvement of the elite into property redistribution within the process of economic reforms. A political leader, who oversees the transformation of economy, is not concerned with maintaining his popularity among citizens. Common interests of the elite deny return to the previous system and provide an active support for the leader. Typical examples of such regimes are Yeltsin's Russia and Kuchma's Ukraine. The **second type** provides for the broad public support for the leader. This excludes the elite from participation in the decision making process and a process of property redistribution. A typical example of such regime was Turkmenistan before Turkmenbashi's death. Each of these regimes has its own logic and institutional system that provides for a regime's internal sustainability.

Electoral pre-conditions. The political regime in Belarus emerging in 1994 relied on support of the majority of the population. Citizens supported both the new President and his program. This led to the formation of a direct power regime "president - people", in which other state institutions' role became nominal. All political elites that defended their own interests became enemies of the regime and were eliminated from the political life, regardless of their ideology (both the Right and the Left). The first step in this process was the liquidation of Parliament and alteration of the Constitution in 1996. Then, during the following several years, the control was established over all major financial streams in the country, i.e. control over large, by Belarusian standards, private business. These actions deprived the political opposition of their internal finance resources. Presidential elections in 2001 ended the process of liquidation of the political environment in the country. Right after the elections the state machinery was reorganized, and as a result, influence of internal political groups in the government and presidential administration were limited. The opposition was forced out to deal with human rights issues only. Limited broadcasting of Russian TV channels led to the establishment of control over mass media. In such circumstances the President remained the only recipient of so-called political "rent" (credit).

The political program that had received support from the Belarusian people was based on two main theses:

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Lukashenka's rating dynamics (rating of projected constituencies' behavior)



- Social and economic stability ensured through preservation of big enterprises, high level of employment, absence of privatization and reestablishment of state economy regulation. This approach was always presented as an alternative one to Russian economic reforms that according to Belarusian authorities led to economic chaos and social tension;
- Union with Russia as one of the sources of economic renovation and one of the slogans that was obviously broadly supported by the Belarusian population. There is an assumption that one of the motivating forces of integration policy was Lukashenka's own political ambitions towards Russian political environment.

Economic pre-conditions. Belarus economic success in the mid-90s was mainly based on "Soviet heritage": there was a strong and unique means of production with dominating industry export orientation. In circumstances of industrial crisis in mid-90s in Russia, Belarusian enterprises were successful in exporting their products to the country. Another factor of growth in 1996-1998 was a special relationship with Russia: signed agreement on unified customs space, debt amortization for energy transmitters, low prices for gas imported to Belarus.

The Russian financial crisis in mid 90ies revealed several weaknesses of macroeconomic policy based on enterprises' funding at the expense of credit expansion and soft budget constraints. However, the crisis was overcome partially through the revision of internal economic policy, but mainly because of renewed economic growth in Russia.

Thus, by the end of 2001, political regime was established in Belarus that was based on a set of main elements, including:

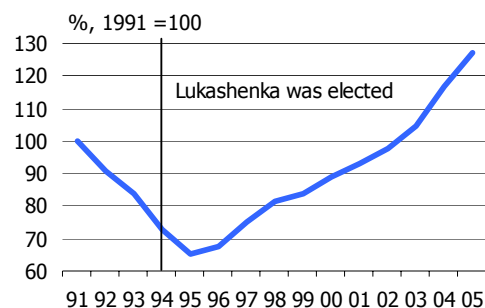
1. Granted Russian subsidies for Belarusian economy (both directly and indirectly) gave Belarusian authorities resources needed for the implementation of announced social and economic policy;
2. Social and economic stability in the society provided for support of the Belarusian president by the majority of population;
3. Lukashenka relied on support of the majority of the population, which allowed him to concentrate all politics in his own hands, depriving state machinery and other political elites of access to it.

1.2 Crisis of the political system

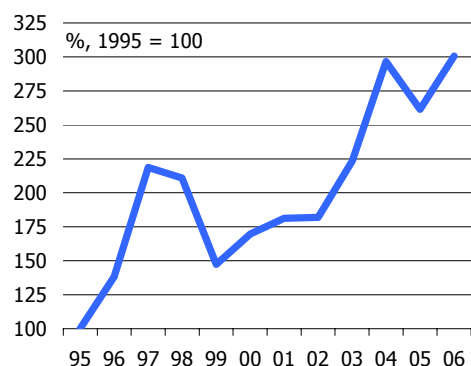
In 2003 all elements of the political regime in Belarus faced new challenges.

Challenge 1: Lukashenka's rating decrease. From the moment of election Lukashenka's rating was about 40%-50%, i.e. he enjoyed support from the population of Belarus. In spring 2004 his rating reached its minimal level (according to different surveys, his rating dropped to 14 – 19 %) This sharp decrease of Lukashenka's rating called his monopoly right to receive political credit in question, mainly from the state machinery that was itself interested in an access to the redistribution of property in the country.

GDP growth



Dynamics of Cost-Based Export Volume to Russia



Difference in the price for gas delivery in comparison with Ukraine and Germany



Black color: in comparison with Germany

Orange color: in comparison with Ukraine

Comment: Data shows what percent of GDP Belarus would have to pay additionally for the amount of consumed gas, if the price was the same as for Ukraine and Germany

In the summer of 2003, different groups in existing administration made an attempt to exert pressure on authorities. This struggle resulted in a number of arrests of businesspeople integrated with authorities and several projects aimed at partial liberalization of the economy. Lukashenka faced with the dilemma: either to get back people's support or to form another regime letting state machinery to participate in property redistribution.

Lukashenka's personal qualities and his style of political leadership stimulated him in looking for the ways of his rating increase. Set of instruments in this case was very limited. Social and economic tools that could be used just during the election campaigns as the resources that could provide for a long-term rise of the quality of life of the population were absent. Therefore, an attempt was made to use instruments of nationalism that appeared as anti-Russian rhetoric. Gas conflict in 2003 was used for Lukashenka's electoral support increase. However, the possibilities of using nationalism as a political instrument were constrained by the former policy concept and Lukashenka's own views. Therefore, the status of nomenclature began to change. Officials' salaries were increased along with the salaries of directors of state enterprises; anticorruption policy was softened.

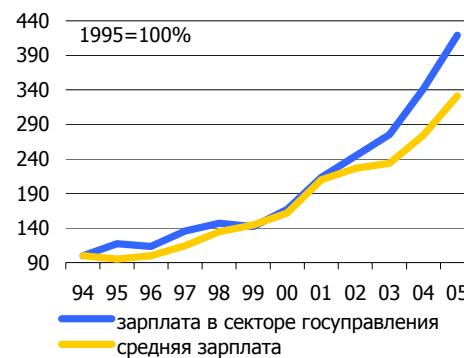
Challenge 2: relationship with Russia. Because of the changes in Russia, the implementation of the former integration plan lost its sense. Main elements of this project for the Belarusian side were Lukashenka's political leadership and transfer of Belarusian political and economic model into Russia. If the integration process had been continued, it would have brought Russian private business in Belarus. This could cause dismantling of main finance streams' control system and give the opposition internal sources of funding. All this forced Belarusian authorities to refuse the old political project "Leadership in Integration" and start forming new political project, "National Leadership". Integrative rhetoric gave in to undertaking the role of the president in confrontation with artful and guileful "near and distant" neighbors. Undoubtedly, patriotism in political communication could increase Lukashenka's rating. During the period of active anti-Russian rhetoric it rose up to 30%. However, the attempts in this direction were not very inspiring. Lukashenka was not able to decisively raise the "flag of nationalism". Political experience and existing cadres were an internal constraints of this action. Search for ideological grounding of the new policy resulted in conception, according to which Belarusians are the best Russians and Slavic people who remained faithful to traditional Slavic values unlike the other Slavic people who sell themselves to foreign cultures. This message to the electorate doesn't sound really inspiring for any of the social groups. Apart from the ideological rhetoric, broken integration agreements between two countries, the new standpoint of Belarusian authorities was reflected in purposeful prohibition of various Russian business initiatives in Belarus.

Political and business cycle in Belarus

Events	Measures
Referendum May 14, 1995 ¹	Salary: 160% – May 1995, 188% – June 1995 ⁴
Referendum November 24, 1996 ²	Salary: one month after the referendum salary was increased Debts: September 1996 – 24%, October 1996 – 6.5% ⁵
Presidential Elections September 9, 2001	Salary: -36% – 1999, 44% – 2000, 58% – January-August 2001 Target point: 100 US dollars by the time of elections Debts: August 2000 – 17% of salary-fund, September 2000 – August 2001 – 2.4% of salary-fund (August 2001 – 0.5% of salary-fund). After the elections – has increased by 15 times
Referendum October 17, 2004 ³	Salary: 28.6, 40.5 and 43.5% – October, November and December 2004 Target point: 200 US dollars till the end of 2004, 250 US dollars till the end of 2005 Debts: since 2003 virtually non-existing
Presidential elections March 19, 2006	Salary: has not increased less than 30% during last two years Target point: 300 US dollars till the end of 2006

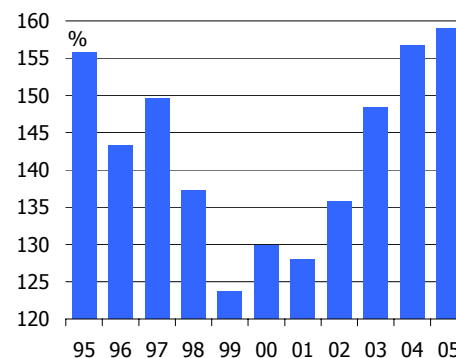
Comment. 1 – national symbolic was changed, integration with Russia, land reform; 2 – president's authorities broadening; 3 – cancellation of the limit on the number of presidential terms for one person; 4 – growth speed; 5 – arrears of wages measured in % of salary-fund.

Dynamics of wages in the government sector in comparison with average salary



Blue color – wages in the government sector
Orange color – average salary

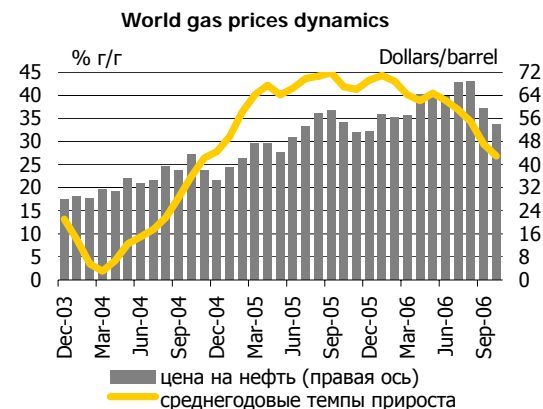
Ratio of wages in the government sector to average wages



The main problem for Belarus within the new configuration of relationship with Russia was a threat of Russia cutting down subsidies for the Belarusian economy. First of all this threat was related to the shortening of direct preferences reflected in understated prices for energy transmitters and direct finance support for Belarusian government. One more element of "Russian challenge" was Russia's economy dynamics that was doubting effectiveness of the selected model of Belarus social and economic development. This deprived Lukashenka of an important ideological instrument that provided him support of a considerable part of population.

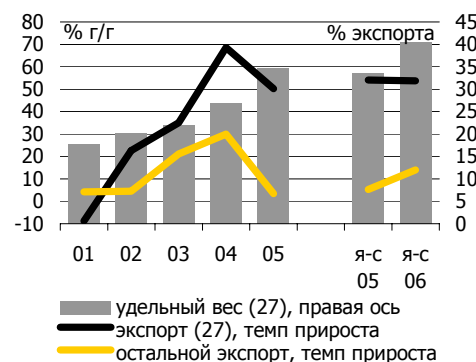
Challenge 3: state of economy. Official propaganda was always underlining advantages of the Belarusian social and economic model in comparison with those of CIS countries, most of all – Russia. In response to ideological challenges of the successful Russian economy a new plan was designed for Belarusian economic development: starting from 2004 the government faced new objectives – to provide for 8-9% increase in the Belarusian economy; to reach the level of \$250 for average salary by the end of 2005. In order to reach these objectives two sets of measures were offered. From the one side, state control over the state and former state enterprises was increased (there were just 80 enterprises that belonged to state property and were reorganized into open joint stock companies in which the state has no interest). These measures could be effective because in the absence of concentrated owners management of the company is practically entitled to complete and unsupervised use of the company's resources. There are very limited chances to an increase the managements' share on such enterprises that leads to extremely ineffective forms of internal corruption in management. Therefore, toughening of state control at some point increased effectiveness of such enterprises. Everything mentioned above is true for state-owned enterprises.

On the other side, the government took the measures aimed at private sector support: certain liberalization of institutional conditions of small and medium business, easing of private entrepreneurs' access to state owned investment resources (real property and equipment), broad participation of private business in rural economy. Measures taken in order to liberalize private sector were contradictory and resembled those taken by socialistic governments in different countries of the Central and Western Europe. In 2003 the economy began to grow rapidly based on two factors: rise in world prices for oil products and growth of economy in Russia.



Grey color – gas prices (right axis)
 Orange color – average annual increase

Role of oil and other oil products in Belarus export



Grey color – share (27), right axis
 Black color – export, growth rate
 Orange color – other export, growth rate

Comment: 27 – code «Mineral fuel, oil and their processed products».

2. Features of political development in 2004–2006

On the eve of 2006 presidential elections, main trends of regime's development founded during the electoral crisis of 2003 actively resurfaced.

Policy towards opposition was toughened and independent mass media were almost liquidated, activities of NGOs were taken under tough control.

The regime managed to re-established its electoral support, but of a different kind. Support of a charismatic Lukashenka decreased while support of the policy implemented in the country increased. This showed up, for example when many of those who voted for Lukashenka were unwilling to recognize that. In particular, private business support increased while support of those who traditionally voted for Lukashenka decreased.

The project "National Leadership" had been developed and active formation of ideological grounding for the project began. These developments resulted in a so called "state ideology". Lukashenka's last election campaign with a slogan "For Belarus" was a quintessence of this process.

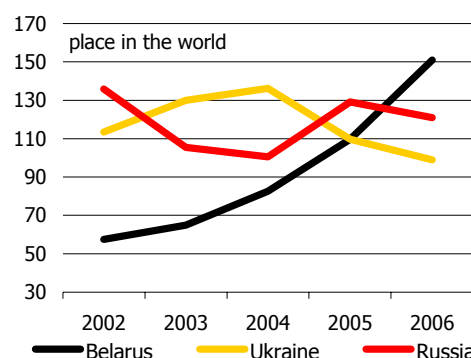
Nomenclature's role began to increase in the economic decision making process, which in turn resulted in corruption growth in the society.

External economic policy of the country was changed radically. In 2005 the European Union became the biggest export partner for Belarus.

As previously the economy remains the real challenge. GDP growth (provided by high world prices for oil products) isn't stable and is fully dependant on the current world situation. The threat of gas price increase is a great challenge for the Belarusian economy model and doubts its capability to adapt to external shocks. Single market orientation of the Belarusian export with a big share of Russian market VAT is another serious challenge. Growth of the Russian economy and rise of population income in long-term period lead to Belarusian products sales slowdown (these products are mainly designated to the poorest part of the population). Moreover, economy's growth in Russia attracts big international companies and leads to emergence of aggressive Russian companies, i.e. to competition increase. Belarusian enterprises have no experience of work in a highly competitive environment.

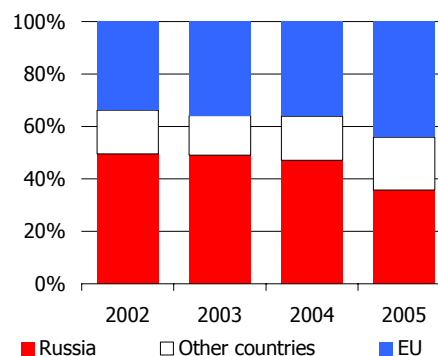
For the first time since the Russian pressure has started in 1994 to ensure participation of Russian business in the Belarusian economy has appeared in Lukashenka's view as a real threat, as the implementation of these intentions would remove considerable financial streams from the direct control. If Minsk does not want to return to the Union State project, it must look for alternative allies and liberalize economy at a certain point.

Rating of countries based on the index of corruption perception



Comment: Rates of the countries were re-calculated based on the assumption that 163 countries took part in ranking (as of 2006)

Share of Russia and EU in Belarusian export



Changes of Russian gas price for selected NIS countries in 2006

Country	Price in 2005, US dollars / 1000 M ³	Price in 2006, US dollars / 1000 M ³	Rate of growth, %
Azerbaijan	60	140	133.3
Armenia	54	110 (80)*	103.7 (49.2)
Belarus	47	47	0.0
Georgia	62	110	77.4
Moldova	80	110, 160**	37.5, 100.0
Ukraine	50	230 (95)***	360.0 (90.0)

* the price increased since 1st of April 2006. The price of gas for 1000 M³ is approximately 75–80 US dollars, considering agreements on Russian military equipment delivery to Armenia with reduced price

** the price was raised twice: since January 1 and July 1, 2006.

*** Gazprom sales gas (price 230 US dollars) to Joint Russian-Ukrainian Company "RosUkrEnergo" that sells gas to Ukraine - price 95 US dollars/1000 M³.

3. Conclusion: New opportunities emerged as a result of changes in the regime and society

After the gas and oil disputes with Russia, for the first time, there are opportunities of a broad dialog in the society about the ways of development of the country. Changes in the regime's electoral support open up possibilities of building a dialog with different groups in the society. In order to build this dialog, implicit social contracts between authorities and social groups should be identified and development of appropriate alternatives starts. Belarusian authorities facing the new configuration of economy and foreign policy, to some extent, became more open to the dialog on economic and partly political issues.